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SUBJECT: COSTELLO AND OTHERS ON NEXT STEPS FOR
US/AUSTRALIAN RELATIONS

REF: CANBERRA 203

Classified By: Michael E. Thurston for reason 1.4 (b)

Summary

1. (C/NF) Consul General hosted former Treasurer Peter Costello and other prominent Victorians at the first of a series of focus group lunches on the future of U.S./Australian relations. Participants agreed that the United States' credentials as a center for world finance had been damaged and that increased regulation would help. April's G-20 meeting will be a watershed event and participants expressed concern that unless solid progress is made, European pressure to hold more exclusive G-7 summits may win the day, cutting out other significant economies. Other steps the new administration can take to improve ties include sharing lessons learned in the global slowdown, revisiting the U.S./Australian FTA and invigorating people and culture swaps. Participants agreed that Australian motivation to improve ties with the United States has rarely been stronger, and "the time to act is now." End Summary.

Damaged Financial Credibility?

2. (C/NF) During a March 4 luncheon with several prominent Victorians, participants observed that the global financial crisis has damaged the United States' credibility as a center for global finance. Peter Costello, Liberal Party MP, and John Roskam, Executive Director of the Institute for Public Affairs (a right-leaning think tank) said that stepped up prudential regulation in the United States would help restore some of this lost credibility. Costello, who served as Australia's Treasurer for more than 11 years during the previous Howard administration, suggested Australia could offer the United States guidance on implementing stricter prudential and financial regulations.

3. (C/NF) Costello commented that Australia has been somewhat insulated from the global downturn due to its decision not to relax credit standards, to prohibit its four major banks from merging, and to create the Australian Prudential Regulation Authority (APRA), which he described as a regulator to watch all financial institutions. (Comment: Many business leaders in Melbourne would disagree with Costello's statement and believe that the full force of the coming "economic tsunami" has not yet fully hit Australia. End comment.) Costello added that exchanges of regulators and legislators might benefit both countries.

¶4. (C/NF) Costello, who took credit for being one of the architects of the G-20, noted that the Bush administration's decision to use the organization to confront the global financial crisis helped to cement it as a premier organization. William Fisher, Director of the Victoria office of the Department of Foreign Affairs and Trade (DFAT) and former Australian Ambassador to Canada and France, said however that the future of the G-20 is not assured. According to Fisher, some Australians are worried that European pressure to confront the global slowdown via a smaller, G-7 configuration may derail the G-20's current momentum. Fisher flagged his concern over the number of disparate proposals submitted for the April G-20 meeting that will not be able to be successfully harmonized during the short time in London. Fisher and Costello both agreed that in order to institutionalize the G-20, a follow up meeting in Korea or Japan should be announced at the conclusion of the London summit.

¶5. (C/NF) Turning to the U.S./Australian free trade agreement (FTA), Costello argued for amending the accord to facilitate the free movement of people between the two countries as a logical next step. Nick Economou, Professor of Politics at Monash University, agreed with Costello, observing that recognition of professional qualifications across borders would encourage deeper ties between the United States and Australia. John Roskam said many Australians see the FTA as a fait accompli, but finding new ways to expand it would only require a small amount of political capital on either side. Bill Fisher noted senior American officials such as Rich Armitage and Robert Zoellick who had been strong supporters and champions of Australia had served the bilateral alliance well. He expressed hope that individual relationships with senior officials in the current administration would continue to deepen.

Australian Troops to Afghanistan?

¶6. (C/NF) On the question of whether Australia would agree to a request by the United States to send additional Australian troops to Afghanistan, participants were split. Costello, Roskam and Economou responded Australia likely would say yes. William Fisher, however, added the caveat that Australia would not respond favorably unless NATO increased its commitment to Afghanistan.

U.S. and Asian Regional Architecture

¶7. (C/NF) Participants agreed that the United States should play a greater role in Asia Pacific, including in regional architecture, but differed on which forum provided the best opportunity. Alluding to Secretary Clinton's February 18 remarks in Jakarta on greater U.S. engagement with Asia, including plans to pursue accession to the ASEAN Treaty of Amity and Cooperation, William Fisher urged the U.S. should next consider participation in the East Asia Summit (EAS). According to Fisher, APEC is not a sufficient forum most because it does not include a security dimension. Taiwan's presence in APEC, Fisher said, precludes that organization from developing the comprehensive scope that some Asian leaders (including the Rudd government) are seeking. Alluding to PM Rudd's vision for an Asia-Pacific Community (APC) by 2020, he insisted that a "new architecture" was necessary and that senior level (read: head of government) participation would be required.

¶8. (C/NF) Peter Costello disagreed with Fisher's conclusion that a new architecture is necessary. According to Costello, Asia Pacific countries should focus on making the numerous existing agreements work better, rather than adding another organization to the "tangle" of pacific architectures. John Roskam noted that Australia needs the United States to be engaged in the Asia Pacific not as a strategic counterbalance

to China, but rather because the United States is a democratic and free-market economy with a legacy of involvement in the region.

People and Culture Swaps

¶9. (C/NF) All four participants agreed that the U.S./Australian relationship would benefit by encouraging more Australians to visit the United States. William Fisher praised the "working holiday" program which allows Australian students to spend an extended period of time in the United States, but lamented over the "cumbersome" DHS requirements. He said that many Australian students are opting to go to Europe instead of the United States because of DHS requirements of being a "student" and being "sponsored." Nick Economou added that a combination of prohibitively high college tuitions and the United States' many commonalities with Australia also make it a less desirable destination for a growing number of his students.

Comment

¶10. (C/NF) The starting point for most of our official conversations with our Australian counterparts almost always revolves around how sound U.S./Australian relations continue to be. We were struck this time, however, by how keen these prominent interlocutors were to continue to build upon that base. All four participants noted that the time to make real strides in the U.S./Australian alliance is now because "Aussies are in love with Obama" and Prime Minister Rudd is "keen" to show his willingness to work closely with the President.

THURSTON